

Message Text

CONFIDENTIAL

PAGE 01 SEOUL 03171 01 OF 02 291025Z

22

ACTION EB-07

INFO OCT-01 EA-07 IO-13 ISO-00 FEA-01 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

AF-08 ARA-06 EUR-12 NEA-10 /137 W
----- 062872

R 290728Z APR 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 6842

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

USMISSION GENEVA

USDEL MTN GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 3171

HONG KONG FOR REGFINATT

E.O. 11652: GDS

TAGS: EFIN, ETRD, GATT, MTN, EALR, KS

SUBJ: KOREAN TRADE, BALANCE OF PAYMENTS ENJOY EXCELLENT FIRST
QUARTER

REF: (A) SEOUL 1801 (NOTAL), (B) SEOUL 1452 (NOTAL), (C) EAL

1. SUMMARY: BOLSTERED BY A REMARKABLY STRONG PERFORMANCE IN
MARCH, PRELIMINARY DATA INDICATE THE KOREAN ECONOMY ENJOYED AN
EXCELLENT FIRST QUARTER. AS PROSPECTS FOR 1976 AS A WHOLE
CONTINUE TO BRIGHTEN, ATTITUDES TOWARDS KOREA IN THE INTER-
NATIONAL FINANCIAL COMMUNITY ARE GROWING INCREASINGLY POSITIVE.
THIS CABLE EXAMINES RECENT TRENDS IN FOREIGN TRADE, BALANCE OF
PAYMENTS AND CAPITAL FLOWS WHOSE FIRST QUARTER PERFORMANCE
SUGGESTS KOREA SHOULD BE ABLE TO MEET AND QUITE PROBABLY EXCEED
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SEOUL 03171 01 OF 02 291025Z

MOST OF ITS 1976 TARGETS. EQUALLY ENCOURAGING DEVELOPMENTS

IN THE INTERNAL SECTORS OF THE ECONOMY WILL BE REPORTED BY
SEPTEL. END SUMMARY.

2. SURGING EXPORT DEMAND CONTINUES TO BE THE KEY FEATURE IN THE REBOUND OF KOREA'S ECONOMIC FORTUNES. POURING IN AT A RECORD LEVEL OF \$714 MILLION IN MARCH, FIRST QUARTER EXPORT LETTER-OF-CREDIT (L/C) ARRIVALS, REPRESENTING NEW EXPORT ORDERS, TOTALLED \$1,834 MILLION (\$1,968 MILLION SEASONALLY ADJUSTED), AN INCREASE OF 92 PERCENT OVER LAST YEAR'S DISMAL FIRST THREE MONTHS. TECHNICAL PROBLEMS HAVE DELAYED RELEASE OF CUSTOMS CLEARANCE DATA ON FOREIGN TRADE, BUT PRELIMINARY BANK OF KOREA (BOK) FIGURES INDICATE SEASONALLY ADJUSTED EXPORT SHIPMENTS AVERAGED ROUGHLY \$530 MILLION PER MONTH FOR JAN-MAR, ABOUT 60 PERCENT AHEAD OF JAN-MARCH 1975 SHIPMENTS. (NOTE - SEASONALLY ADJUSTED FIGURES REPORTED IN THIS CABLE REPRESENT REVISIONS FROM DATA REPORTED IN REF A AS A RESULT OF REMPLYING NEWLY RELEASED BOK SEASONAL INDICES INCORPORATING 1974 AND 1975 DATA.)

3. ALTHOUGH TEXTILES CONTINUE TO LEAD THE EXPORT PARADE, ACCOUNTING FOR 43 PERCENT OF FIRST QUARTER L/C ARRIVALS, VIRTUALLY ALL CONSUMER-ORIENTED PRODUCTS ARE DOING WELL. RECENT EXPORT L/C TOTALS HAVE ALSO BEEN BUTTRESSED BY RISING DEMAND FOR IRON AND STEEL PRODUCTS. REPORTS OF PRICE INCREASES FOR EXPORT PRODUCTS ARE COMMON, BUT DETAILS ON CHANGES IN THE EXPORT PRICE INDEX ARE NOT YET AVAILABLE. RECOVERY IN THE U.S. MARKET IS PLAYING A LEADING ROLE IN THE EXPORT BOOM. FIRST QUARTER L/C ARRIVALS FROM THE U.S. AVERAGED \$213 MILLION PER MONTH TO ACCOUNT FOR 35 PERCENT OF THE TOTAL AS COMPARED TO THE 31 PERCENT SHARE OF KOREA'S EXPORTS TAKEN BY THE U.S. IN 1975. DEMAND IS ALSO STRONG IN EUROPE AND THE MIDDLE EAST, WITH IMPROVEMENT IN THE JAPANESE MARKET STILL LAGGING BEHIND.

4. CURRENT INDICATIONS ARE THAT APRIL EXPORT DATA WILL BE AS GOOD, OR BETTER THAN, MARCH FIGURES. TRADE BARRIERS IN IMPORTING COUNTRIES, PARTICULARLY TEXTILE QUOTAS, AND PRODUCTION CAPACITY LIMITATIONS ARE CITED AS FACTORS LIKELY TO PRODUCE AT LEAST A LEVELING OFF OF EXPORT GROWTH AS THE YEAR PROCEEDS. EVEN AFTER ALLOWING FOR THESE FACTORS, HOWEVER, MOST FORECASTERS NOW FORESEE 1976 EXPORTS REACHING A MINIMUM OF \$6.8 TO 7.0
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SEOUL 03171 01 OF 02 291025Z

BILLION AS COMPARED TO THE TARGETED FIGURE OF \$6.5 BILLION.

5. SEASONALLY ADJUSTED KFX IMPORT LICENSING SLOWED AGAIN IN MARCH AFTER A STRONG FEBRUARY. DATA FOR THE FULL QUARTER SHOW KFX IMPORT LICENSES UP A MODERATE 18 PERCENT OVER A YEAR AGO, WHILE KFX IMPORT ARRIVALS ON A SETTLEMENTS BASIS ACTUALLY DECLINED 7 PERCENT FROM LAST YEAR'S UNUSUALLY HIGH FIRST QUARTER. (KFX IMPORTS EXCLUDE IMPORTS FINANCED BY FOREIGN LOANS AND

INVESTMENT AND CERTAIN OTHER IMPORT CATEGORIES.) DESPITE THIS CONTINUING IMPORT RESTRAINT, THE FULL YEAR IMPORT TOTAL IS STILL LIKELY TO EXCEED THE PROJECTED F.O.B. CEILING OF \$7.4 BILLION, PARTLY TO SUPPORT A HIGHER LEVEL OF EXPORTS. CURRENT EMBASSY ESTIMATES INDICATE KOREA SHOULD BE ABLE TO HOLD ITS 1976 VISIBLE TRADE DEFICIT TO THE TARGETED \$900 MILLION WITH EXPORTS OF \$6.8 TO \$7.0 BILLION AND WOULD NARROW THE DEFICIT AT AN EXPORT LEVEL ABOVE THAT RANGE.

6. 1976 CURRENT ACCOUNT PERFORMANCE IS ALSO LIKELY TO BENEFIT FROM BETTER-THAN-EXPECTED RESULTS FOR INVISIBLE EXPORT RECEIPTS. PARTIALLY ESTIMATED FIRST QUARTER DATA SHOW FOREIGN EXCHANGE EARNINGS FROM TOURISM AS \$49 MILLION, UP 64 PERCENT OVER LAST YEAR'S VERY WEAK FIRST QUARTER. THIS IMPRESSIVE SHOWING IN THE SEASONALLY SLOW FIRST QUARTER SUGGESTS THE FULL YEAR TARGET OF \$200 MILLION IS PROBABLY UNDERESTIMATED. 1976 FOREIGN EXCHANGE INFLOWS FROM OVERSEAS CONSTRUCTION ACTIVITIES ARE ALSO LIKELY TO EXCEED CONSERVATIVE OFFICIAL FORECASTS.

7. WHILE DETAILS ARE INSUFFICIENT AS YET TO CONSTRUCT A RELIABLE ESTIMATE OF OVERALL FIRST QUARTER BALANCE OF PAYMENTS RESULTS, PRELIMINARY INDICATIONS ARE THAT PERFORMANCE WAS CONSIDERABLY BETTER THAN ASSUMED IN THE FULL YEAR PROJECTION. THE CURRENT ACCOUNT DEFICIT ON A CASH OR KFX BASIS WAS ONLY \$106 MILLION AS COMPARED TO A GAP OF \$742 MILLION IN JAN-MARCH 1975. FURTHER EVIDENCE IS PROVIDED BY THE GROWTH OF GROSS FOREIGN EXCHANGE RESERVES BY \$150 MILLION TO \$1,692 MILLION DURING THE PERIOD, DESPITE THE FACT CURRENT ACCOUNT PERFORMANCE IS SEASONALLY WEAKEST IN THE FIRST QUARTER. A NET EXPANSION IN SHORT-TERM TRADE CREDITS, A FURTHER RISE IN FOREIGN EXCHANGE DEPOSITS PLACED IN LOCAL BANKS AND A \$64 MILLION DRAWING UNDER THE IMF OIL CREDIT FACILITY CONTRIBUTED TO THE RISE IN RESERVES.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 SEOUL 03171 02 OF 02 291026Z

22

ACTION EB-07

INFO OCT-01 EA-07 IO-13 ISO-00 FEA-01 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

AF-08 ARA-06 EUR-12 NEA-10 /137 W

----- 062751

R 290728Z APR 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 6843

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONSUL HONG KONG

USMISSION GENEVA

USDEL MTN GENEVA

C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 3171

HONG KONG FOR REGFINATT

8. FYI - ANY ATTEMPT TO ESTIMATE A MORE COMPLETE
BALANCE OF PAYMENTS PICTURE IS SEVERELY HANDICAPPED
BY THE ABSENCE OF CUSTOMS DATA ON FOREIGN TRADE.
PROMPTED BY CONTINUING DISCREPANCIES BETWEEN CUSTOMS DATA
AND OTHER DATA SERIES, THE OFFICE OF CUSTOMS ADMINISTRA-
TION (OCA) UNDERTOOK A MASSIVE RECHECKING OF 1975 DATA.
PREVIOUSLY RELEASED FULL YEAR 1975 TOTALS WERE WITHDRAWN
AND NO FIGURES FOR 1976 HAVE BEEN RELEASED AS YET.
WE HAVE JUST LEARNED TODAY FROM OCA AND BANK OF KOREA
(BOK) SOURCES THAT THE RECOUNT HAS PRODUCED VIRTUALLY
NO CHANGES IN THE ORIGINALLY REPORTED 1975 TOTALS OF
\$4,485 MILLION, F.O.B., FOR EXPORTS AND \$7,274 MILLION
C.I.F. FOR IMPORTS. OCA WILL REPORT A FIGURE OF
\$5,081 MILLION FOR EXPORTS BUT THE DIFFERENCE IS ALMOST
ENTIRELY DUE TO INCLUDING GROSS FOREIGN EXCHANGE RECEIPTS
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SEOUL 03171 02 OF 02 291026Z

FROM OFF-SHOR TUNA SALES WHICH HAVE NOT PREVIOUSLY BEEN
INCLUDED IN CUSTOMS TOTALS. BOK USES A NET TUNA SALES
FIGURE FOR BALANCE OF PAYMENTS ACCOUNTING AND WILL ADJUST
THE OCA FIGURE DOWNWARD TO \$4,980 MILLION FOR THAT PURPOSE.

9. THE STRONG PERFORMANCE OF THE KOREAN ECONOMY OVER
THE PAST SIX TO NINE MONTHS IS RAPIDLY RESTORING THE
INTERNATIONAL FINANCIAL COMMUNITY'S CONFIDENCE IN
KOREA'S ECONOMIC OUTLOOK. WITH THE NEED FOR FURTHER
EXPANSION OF SHORT-TERM CREDIT HAVING LARGELY DISAPPEARED,
KOREA CURRENTLY HAS AN ESTIMATED \$600 MILLION IN
UNUTILIZED SHORT-TERM LINES OF CREDIT. ROKG OFFICIALS
ARE NOW INCLINED TO ALLOW GROSS FOREIGN EXCHANGE
RESERVES TO RISE TO ABOUT \$2 BILLION BEFORE ATTEMPTING
TO REDUCE NET SHORT-TERM BORROWING. IN THE INTERIM,
AN EFFORT HAS BEGUN TO ROLL OVER OUTSTANDING SHORT-TERM
DEBT ON IMPROVED TERMS, WITH THE GENERAL GUIDANCE BEING

TO RETIRE FINANCING AT TERMS HIGHER THAN 1.75 PERCENT OVER PRIME RATES (THE PREVIOUS ALLOWABLE MAXIMUM WAS 2 PERCENT). CEILINGS ARE ALSO BEING REDUCED ON THE PREMIUMS LOCAL BANKS ARE ALLOWED TO OFFER FOR FOREIGN EXCHANGE DEPOSITS FROM FOREIGNERS, WITH THE PAYING OF A 2 PERCENT PREMIUM OVER THE LONDON INTERBANK OFFER RATE (LIBOR) NOW RESTRICTED TO TIME DEPOSITS OVER SIX MONTHS. A TEMPORARY EXCEPTION IS BEING MADE FOR DEPOSITS FROM MIDDLE EAST SOURCES, FOR WHICH THE 2 PERCENT CEILING STILL APPLIES TO ALL MATURITIES ON THE GROUNDS KOREA IS STILL A RELATIVE UNKNOWN TO MOST SUCH DEPOSITORS. DEPOSITS FROM THE MIDDLE EAST ACCOUNT FOR ABOUT \$40 MILLION OF THE \$200 MILLION TOTAL.

10. INTEREST IN EXTENDING TERM FINANCING TO KOREA (ONE YEAR AND OVER) IS ALSO GROWING, ALTHOUGH THE TERMS BEING OFFERED ARE STILL RELATIVELY HARD WHEN CONTRASTED WITH THE SITUATION IN 1972 AND 1973. ONE REFLECTION OF THE GENERAL CLIMATE OF RESTORED CONFIDENCE WAS THE RESPONSE TO THE PROPOSAL FOR A SYNDICATED BACKUP FOR KOREA EXCHANGE BANK PERFORMANCE BOND GUARANTEES FOR MIDDLE EAST CONSTRUCTION PROJECTS. INITIALLY TARGETED FOR \$100 MILLION, TOTAL SUBSCRIPTIONS REACHED \$150 MILLION BY THE TIME THE AGREEMENT WAS SIGNED IN HONG KONG

CONFIDENTIAL

PAGE 03 SEOUL 03171 02 OF 02 291026Z

KONG ON APRIL 26 (SEE REF B FOR DETAILS). IN A SEPARATE DEVELOPMENT, KOREA IS RETURNING TO THE CASH LOAN MARKET FOR THE FIRST TIME SINCE THE \$200 MILLION SYNDICATION OF A BALANCE OF PAYMENTS LOAN IN LATE 1974. KOREA RECENTLY APPROVED A BANKERS TRUST CO. OF NEW YORK-INSPIRED PROPOSAL TO SYNDICATE A FIVE YEAR CASH LOAN FOR THE KOREA DEVELOPMENT BANK (KDB). THE ROKG HAD REJECTED A SIMILAR PROPOSAL LAST DECEMBER AS PREMATURE, BUT CONDITIONALLY ACCEPTED THE LATEST OFFER IF BANKERS TRUST WOULD UNDERWRITE A MINIMUM OF \$30 MILLION AS INSURANCE AGAINST A PSYCHOLOGICALLY-DAMAGING FAILURE OF THE SYNDICATION EFFORT. THE PROPOSAL IS NOW GOING FORWARD WITH FOUR BANKS, BANKERS TRUST, SECURITY PACIFIC, WELLS FARGO AND THE BANK OF NOVA SCOTIA, EACH UNDERWRITING \$15 MILLION. THIS PLACEMENT WILL BE MARKETING IN THE NEXT WEEK OR TWO WITH THE SYNDICATION MANAGERS HOPING TO OBTAIN TOTAL SUBSCRIPTIONS OF ABOUT \$100 MILLION. IN STILL ANOTHER DEVELOPMENT, KOREA RECENTLY PLACED \$15 MILLION IN KDB FIVE YEAR BONDS WITH CURRENCY AUTHORITIES OF THE UNITED ARAB EMIRATES (UAE), THE FIRST SUCH PLACEMENT SINCE A SIMILAR ARRANGEMENT WAS MADE WITH THE UAE IN 1974.

11. FURTHER EVIDENCE OF THE IMPROVED OUTLOOK FOR

LONGER TERM CAPITAL FLOWS CAME WITH THE ANNOUNCEMENT THAT NEW COMMITMENTS FOR FOREIGN LOANS AND INVESTMENT TOTALED \$1.1 BILLION FOR THE FIRST QUARTER, ALMOST HALF OF THE \$2.3 BILLION TARGET FOR THE YEAR AND ONLY SLIGHTLY LESS THAN THE \$1.35 BILLION IN NEW COMMITMENTS OBTAINED DURING ALL OF 1975. SOME CAUTION IS NEEDED IN INTERPRETING THIS FIGURE SINCE IT INCLUDES \$345 MILLION FOR THE CANADIAN NUCLEAR POWER PLANT PROJECT, CANDU, A VERY LONG RANGE PROJECT. MOREOVER, WHILE COMMERCIAL LOAN APPROVALS WERE A VERY STRONG \$369 MILLION, AS COMPARED TO \$424 MILLION FOR ALL OF 1975, ECONOMIC PLANNING BOARD SOURCES INDICATE NEW APPLICATIONS BEYOND THOSE ALREADY APPROVED ARE VERY SLUGGISH. ACTUAL LOAN ARRIVALS, AS OPPOSED TO NEW COMMITMENTS, WERE ALSO A MUCH LESS IMPRESSIVE \$323 MILLION AGAINST THE AMBITIOUS FULL YEAR TARGET OF \$1.8 BILLION, ALTHOUGH THIS WAS LARGELY DUE TO AN UNUSUALLY LOW TOTAL OF \$98 MILLION FOR PUBLIC

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 SEOUL 03171 02 OF 02 291026Z

LOAN ARRIVALS, A CATEGORY WHERE ARRIVALS SHOULD ACCELERATE AS THE YEAR PROGRESSES. DIRECT FOREIGN EQUITY INVESTMENT DURING THE QUARTER WAS UNUSUALLY SLOW WITH NEW COMMITMENTS OF ONLY \$11 MILLION AND ACTUAL ARRIVALS OF \$15 MILLION.

SNEIDER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BALANCE OF PAYMENTS, FINANCIAL TRENDS, FOREIGN TRADE, QUARTERLY REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SEOUL03171
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760162-0985
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976047/aaaaafjy.tel
Line Count: 306
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 SEOUL 1801
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 10 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <10 MAY 2004 by woolflhd>; APPROVED <13 SEP 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KOREAN TRADE, BALANCE OF PAYMENTS ENJOY EXCELLENT FIRST QUARTER
TAGS: EFIN, ETRD, EALR, KS, GATT, IMF, MTN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006